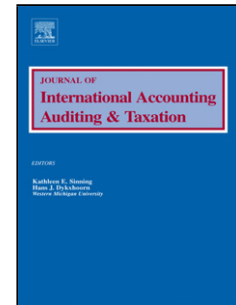


## Accepted Manuscript

Title: Implications for IFRS Principles-Based and US GAAP Rules-Based Applications: Are Accountants' Decisions Affected by Work Location and Core Self-Evaluations?

Authors: Jenice Prather-Kinsey, Scott Boyar, Anthony Hood



PII: S1061-9518(18)30176-9  
DOI: <https://doi.org/10.1016/j.intaccaudtax.2018.08.002>  
Reference: ACCAUD 248

To appear in: *Journal of International Accounting, Auditing and Taxation*

Please cite this article as: Prather-Kinsey J, Boyar S, Hood A, Implications for IFRS Principles-Based and US GAAP Rules-Based Applications: Are Accountants' Decisions Affected by Work Location and Core Self-Evaluations?, *Journal of International Accounting, Auditing and Taxation* (2018), <https://doi.org/10.1016/j.intaccaudtax.2018.08.002>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

**Implications for IFRS Principles-Based and US GAAP Rules-Based  
Applications: Are Accountants' Decisions Affected by  
Work Location and Core Self-Evaluations?**

**By**

**Jenice Prather-Kinsey, Scott Boyar, Anthony Hood**

**Jenice Prather-Kinsey, Professor and Sallie W. Dean Scholar**

**Department of Accounting and Finance, COLLAT School of Business, University of  
Alabama at Birmingham, 1720 2<sup>nd</sup> Avenue South, Birmingham, AL 35294-4460, USA  
PratherKinsey@uab.edu ,205-934-8828, Fax: 205-975-4429**

**(corresponding author)**

**Scott Boyar, Professor**

**Department of Management, Information Systems and Quantitative Methods  
COLLAT School of Business, University of Alabama at Birmingham  
1720 2<sup>nd</sup> Avenue South, Birmingham, AL 35294-4460, USA, slboyar@uab.edu  
205-975-5490, Fax: 205-975-4429**

**Anthony Hood, Associate Professor**

**Department of Management, Information Systems and Quantitative Methods  
COLLAT School of Business, University of Alabama at Birmingham, 1720 2<sup>nd</sup> Avenue  
South, Birmingham, AL 35294-4460, USA, anthonyhood@uab.edu  
205-934-8830, Fax: 205-975-4429**

**Abstract**

Despite efforts to increase convergence and comparability in financial reporting across national borders and regulatory boundaries, inconsistencies in the interpretation of accounting standards persist. The current study examines whether accounting decision-making (consolidation of an investee) is influenced by accountants' work location (United States (US) vs. India) and personality (core self-evaluations). We expect these relationships to differ based on whether the

accounting term “control” is interpreted using the International Accounting Standards Board’s principles-based approach versus the US Financial Accounting Standards Board’s rules-based perspective. Drawing on a sample of 180 English-speaking accountants based in the US and India, results of moderation analyses suggest that accountants’ decision to consolidate is significantly influenced by work location and core self-evaluations when the term “control” is interpreted using principles-based terminology, but not when it is interpreted using rules-based terminology. Practical implications of such inconsistencies for the continued convergence and comparability of accounting standards and decisions as well as directions for future research are discussed.

**Keywords**

Core self-evaluations, control, consolidation, IFRS, US GAAP, decision-making, India

## Implications for IFRS Principles-Based and US GAAP Rules-Based Applications: Are Accountants' Decisions Affected by Work Location and Core Self-Evaluations?

### 1. Introduction

The objective of this study is to assess whether the comparability of accountants' decisions is influenced by work location and personality. When applying the definition of "control" under International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB) vs. US Generally Accepted Accounting Principles (GAAP) as promulgated by the US FASB (Financial Accounting Standards Board), decisions between accountants may differ. The IASB and FASB agree on the importance of comparability in financial reporting across the globe, but it is not clear whether convergence efforts in financial reporting between these two regulatory bodies results in increased comparability (FASB & IASB, 2002).

The joint consolidations project between the FASB and IASB included defining "control" (ASC 810 and IFRS 10)<sup>1</sup>. The FASB included in its definition of "control" for voting interest model entities, the parent owning greater than 50%<sup>2</sup> of the subsidiary's voting rights. The IASB excluded the 50% rule and instead defined "control" for all entities as the effective power of the parent governing the financial and operating policies of an investee to obtain benefits from the investee (IFRS 10). These differences may result in significantly different reporting disclosures (Deloitte, 2008).

---

<sup>1</sup> IFRS 10 *Consolidated Financial Statements* replaces IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 entails a single consolidation model of "control" for all types of entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 although earlier adoption is permitted (IASB 2011).

<sup>2</sup> ASC 810 states "The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership...." FASB (2009) paragraph 810-10-15-8.

Although joint FASB and IASB projects have the goal of increasing comparability in financial reporting globally, inconsistencies in the interpretation of accounting standards persist. For example, extant accounting research includes tests of variations in the interpretation of accounting standards resulting from differences in participants' language or culture (Doupnik & Richter, 2003; Doupnik & Richter, 2004; Doupnik & Tsakumis, 2004; Doupnik & Riccio, 2006; Huerta, Petrides, & Braun, 2016). We extend research on the influence of culture and language on the application of accounting standards by exploring core self-evaluations (CSE). CSE are a meta-personality trait reflective of positive emotions and assessments individuals make regarding themselves as well as their relations with other people and things (Judge et al., 2003). CSE are an important personality measure affecting individual behavior and organizational outcomes (Chang et al., 2012).

To test work location and CSE in an accounting setting, we administered an online survey in 2015 to management accountants in two culturally diverse countries, the US and India (Hofstede, 2001). We operationalized the interpretation of "control" using the decision of whether to consolidate, as the dependent variable, with CSE, work location, and its interaction as the independent variables, with the expectation that CSE explains management accountants' decision. We found that when applying the rules-based definition of control, 50% of voting shares as defined in US GAAP, participants' interpretations are not influenced by work location or CSE. We also found that when applying the principles-based definition of "control" as defined in IFRS (qualitatively only), participants' interpretations are influenced by work location and CSE. That is, principles-based standards are likely to result in incomparable interpretations when individuals have different personalities or work in different locations.

This study makes several contributions. First, we build on and extend prior research that demonstrates the influence of language and culture on interpretation of accounting terms. We extend this research by investigating potential inconsistencies in decision-making among accountants in the US compared with those in India. Second, we add to extent research on the effects of personality on decision-making in accounting by exploring CSE as a unique predictor of accountants' consolidation decisions.

We find no other study that has investigated CSE as an influence on the interpretation of principles based standards by accountants across countries. Standard-setters should find this study interesting as they attempt to implement a global set of accounting standards designed to be applied objectively and consistently across countries regardless of accountants' idiosyncratic tendencies and personal preferences. Third, we posit that differences in the treatment of the term "control" by the IASB and FASB places boundary conditions on these complex relationships. Specifically, under the rules-based nature of US GAAP where control is defined qualitatively and quantitatively as greater than 50% of voting shares, accountants are allowed little room for subjectivity in decision-making. As a result, we expect accountants' decisions will be unaffected by their work location or their personality when applying rules-based terminology. Conversely, we expect the IFRS's qualitatively-only stated definition of "control" to allow for greater subjectivity in interpretation, resulting in significant differences in consolidation decisions according to accountants' work location (based in the US or India) and personality (CSE).

We organize the remainder of the paper as follows. We begin with a brief discussion of differences in and convergence between IFRS and US GAAP. Next, we review literature that identifies individual and environmental factors thought to contribute to differences in comparability between accounting decisions. Building on this, we develop hypotheses involving

the main effects of work location and personality on accounting decision-making as well as the moderating effects of the interpretation of accounting standards on these relationships (see Figure 1 for a conceptual model of these expected relationships). We then describe our research methods and results. We conclude with a discussion of theoretical and practical implications, including limitations and directions for future research.

-----  
Insert Figure 1 about here  
-----

## **2. Literature Review and Hypotheses Development**

### *2.1 Inconsistencies in the interpretation of accounting standards.*

Extensive studies in the psychology literature have investigated the variability in interpretation of qualitative probability expressions. Budescu and Wallsten (1985) assessed the effect of qualitative uncertainty terms on subjects' interpretations. They found a lack of symmetry in respondents' responses when using mirror image pairs of the term "probably" and "improbable." They speculate that the variability in respondents' interpretations could be due to vagueness in the meaning of a qualitative expression or to the fact that the meaning of the qualitative terms varies across individuals. Wallsten et al. (1986) found support that qualitative probability expressions convey varying uncertainties due to the vagueness of the term.

Phillips and Wright (1977) support that culture may influence the interpretation of qualitative terms. They suggest that respondent's inconsistent interpretation of accounting terms may also be due to their individual degree of confidence in the qualitative expression. These studies generally imply that qualitative expressions may result in inconsistent interpretation

across respondents due to the vagueness of the term, differences in culture, and personal confidence in the expression.

## 2.2 *Influence of language and culture on interpreting accounting terms.*

Language or cultural differences may account for inconsistent interpretations of similar accounting expressions. For example, Doupnik and Richter (2003) found that language influenced differences in interpretation of accounting expressions between English and German accountants. Davidson and Chrisman (1993) found that Canadian accounting students interpreted probability expressions differently when scripted in English vs French. Most recently Huerta et al., (2016) surveyed participants, including Americans, Mexicans, and Mexican-Americans. They found that interpretation of probability expressions was influenced by the language in which participants read the accounting standards: Spanish or English.

Other accounting studies posit that cultural origin influences interpretations of accounting terms. For example, Ding, Jeanjean and Stolowy (2005) measure the role of legal origin and Hofstede's cultural dimensions in explaining the difference between accounting standards of differing nations. They find that the level of divergence between a country's accounting standards is significantly associated with the cultural dimensions of individualism and uncertainty avoidance. They also find that national financial reporting standards depend more on a country's level of economic development and size of its capital market than on culture. Legal origin had no power in explaining differences between accounting standards of differing nations.

## 2.3 *Difference in Consolidations Terminology*

The *Memorandum of Understanding: Norwalk Agreement* commenced the formal convergence agenda between the FASB and the IASB (FASB & IASB, 2002). The FASB and



IASB wanted to improve comparability in financial reporting across countries for the benefit of present and potential financial statement users. The FASB believed that convergence with the IASB's IFRS would be a means of pursuing "comparable" financial reporting worldwide. Convergence would facilitate comparability for users comparing financial results of companies across multiple jurisdictions and interpreting consolidated financial reports of multinational corporations. This convergence initiative was met with criticisms including inconsistencies in the reporting of similar business phenomenon (see Lam, 2015; De Luca & Prather-Kinsey, 2014; Nicolaisen, 2005).

Under IFRS 10 (IASB, 2011) and ASC Topic 810 (FASB, 2014), titled "Consolidations," both boards agreed that when one entity "controls" another entity, they are to be reported as one consolidated entity. Both Boards require the acquisition method of accounting for consolidated business entities. However, one of the major dissimilarities between the FASB and IASB is that the FASB continued to include the "50% of the outstanding voting shares" in the definition of control (FASB, 2009, ASC 810-10-15-8). The IASB does not include this language in IFRS 10 (IASB, 2011). In other words, conceivably the same transaction may be accounted for as a consolidated business combination under IFRS, but not under US GAAP. Deloitte (2008) explains that these differences may result in significantly different reporting disclosures. The IFRS contends that a "control" model built on "bright lines" may result in structuring opportunities for those wanting to achieve a particular outcome (IASB, 2012). They also believe that using a principles-based approach to defining "control" will result in disclosures that reflect the economic substance of a transaction. In our study, we expect that principles-based standards create an opportunity for individuals' varying personalities and work location to intercede when applying their judgement in interpreting the same, but differently defined, accounting term.

## 2.4 Hypotheses

We expect work location (India vs. US) to be significantly related to accounting decision-making when judgment is used in applying principles-based expressions. Our definition of work location is operationalized as a binary country variable that corresponds to two countries of differing cultural dimensions as defined by Hofstede (1980, 2001). Wright et al. (1978) find that culture influences probabilistic thinking. As such, probabilistic thinking is the tendency to express or interpret uncertainty in a similar way within a culture. However, a unique qualitative term, such as “control”, may allow for differing interpretations across national boundaries. Thus, individuals from different cultures, such as India and the US, may interpret these expressions differently and thus make different probabilistic assessments about the qualitative expression. IASB defines “control” qualitatively only. Individuals from different cultures, like India and the US, may interpret and apply a unique qualitative expression differently.

Although other studies have examined the impact of country/culture on probability expressions (see Douppnik & Tsakumis, 2004; Douppnik & Riccio, 2006), we test whether this relationship differs according to the decision being made while applying principles-based vs rules-based standards. Since rules contain quantitative expressions or “bright lines” that are specific and not likely to allow for little or any judgment, we expect that application of the rules-based US GAAP definition of control is not influenced by judgment. If an entity meets the greater than 50% control criteria, then the investor consolidates the investee, otherwise the decision is not to consolidate. In essence, we do not expect work location to influence accountants’ decisions to consolidate when applying the term control as 50% or more of the voting share of an investee. Thus, we expect the following:

- H1: Work location (India vs US) influences accountants’ decision-making when applying principles-based standards, but not when applying rules-based standards.

In addition to the effects of work location on decision-making, we also explore an important measure of personality, CSE. CSE are factors that explain individual differences in perceptions of self, others, and the environment (Judge et al., 2003). Judge et al. (1997) introduced the concept of CSE as a way of explaining employee attitudes and behaviors. They define CSE as “the fundamental assessments that people make about their worthiness, competence, and capabilities” (Judge et al., 2005, p. 257). CSE are a composite of four distinct personality dimensions: self-esteem, neuroticism, locus of control, and general self-efficacy. CSE influence a person’s perceptions, attitudes, beliefs, decisions, and actions in their work. CSE explain a person’s behavior on the job and their interpretation of factors internal and external to themselves (Judge et al., 2005) and their perceptions of fairness (Chang et al., 2012). Individuals with high CSE are more likely to perceive elements of work positively and similarly while also seeking to minimize negative situations; thus, they would be more likely to make positive assessments of their work.

Research has demonstrated a positive relationship between CSE and job performance (Judge & Bono, 2001), and this is further supported by a recent meta-analysis (see Chang et al., 2012). Conversely, those low in CSE are likely to possess negative appraisals of their work and aspects of it. CSE are measured at the individual and not country level.

We test whether accountants’ CSE systematically affect their judgment in applying a principles-based IFRS standard and a rules-based US GAAP standard. We posit that accountants’ are likely to have varying personalities and will differ with regard to how they evaluate themselves and their environment. Thus, personality may influence accountants when they evaluate whether to consolidate an investee based on principles-based accounting terminology. More specifically, because IFRS standards are more ambiguous and potentially

more subjective in nature, personality becomes a more important factor in accountants' judgement.

H2: Personality (i.e. CSE) influences accountants' decision-making when applying principles-based standards, but not when applying rules-based standards.

In addition to exploring the independent effects of work location and personality on accounting decisions in the presence of principles-based vs. rules-based standards, we were also interested in improving our understanding of the combined effects of these predictors. That is, we posit that the relationship between personality and accounting decision-making will differ for accountants based in India compared to those in the US. Consistent with our prior hypotheses, we expect that these differences will be observed only when principles-based standards are applied.

There are a number of reasons to expect personality to affect decision-making differently among accountants based in India versus the US. First, India's accounting regulatory body, the Institute of Chartered Accountants of India, set out in July 2007 to adopt (as opposed to converge with) IFRS. India has now essentially adopted IFRS with modifications (IFRS Foundation, 2016). The US has neither adopted nor fully converged with IFRS for its domestic registrants. There are significant differences between US GAAP and IFRS. US accountants then may think of the >50% voting rights rule when making consolidation decisions, whereas India accountants may think of a principles-based definition of control when making decisions of whether to consolidate. As depicted visually in Figure 2, we suggest that under IFRS, Indian accountants' decisions will be more strongly swayed by their personality (i.e. CSE) than those of US based accountants. Therefore, US based accountants may resist the tendency to allow their personal feelings to drive their decisions because of their rules-based training and, thus, more likely to

apply the greater than 50% of voting shares rule in applying interpretation of the word “control” in the context of consolidations.

-----  
Insert Figure 2 about here  
-----

Second, there are significant differences in India and US cultures. Using a sample of 12,909 firm-year observations, including 43 firm-year US observations and 219 firm-year India observations, Duong, Kang, and Salter (2016) find evidence that national culture differs between India and the US based on Hofstede’s cultural dimensions and their Rule Preference Index that is a proxy for national culture. Hu, Chand, and Evans (2013) study the effect of national culture on Australian and Chinese students and find that national culture influences the judgement of students when interpreting selected IFRS uncertainty expressions. That is, students from different cultures will respond differently to IFRS principles-based standards. Heinz, Patel, and Hellmann (2013) suggest and call for more studies that focus on the influence of personality variables because they are likely to provide sharper insight on accounting judgments than national cultural influences alone. Thus, we developed the following hypotheses:

H3: The influence of personality on accountants’ decision-making will differ for those based in the US as compared to those in based in India. These differences will be observed when applying principles-based standards, but not when applying rules-based standards.

### **3. Research Method**

#### *3.1 Sample*

Data were collected in 2015 using an online survey developed by the authors and administered by Empanel to accountants working in the US and India. The survey was completed by 122 accountants in the US (68% of sample) and 67 accountants in India (32% of

sample). The same survey was administered in English to all participants. Because we focus on accountants' judgment in interpretation of standards and not language differences, we limited the sample to only English speaking participants. Of those sampled, 41% were female with 8.22 mean years of tenure with their current employers.

### 3.2 Instrument and Dependent Variable

The dependent variable was designed to assess an important decision that accountants make of whether to consolidate an entity under either an IFRS principles-based standard or a US GAAP rules-based standard. We utilized a scenario-based approach and developed two typical scenarios, one for each accounting body's definition of "control." We used an iterative process to develop the scenarios with input gathered from:

- a) extant accounting research (see Douppnik & Tsakumis, 2004),
- b) a pilot<sup>3</sup> study administered to practicing accountants attending a Continuing Professional Education (CPE) session,
- c) Reviews from German and US accountants practicing in public accounting firms; and,
- d) US accounting academics at the 2012 AAA Diversity conference in Atlanta, Georgia.

Respondents were asked to read a typical accounting scenario and make a judgment. The IASB's "IFRS Scenario" is as follows:

*Peach Company owns 40% of the voting stock of Sub Company. The remaining voting stock of Sub Company is widely dispersed and these stockholders are not related parties of the company and typically do not participate in the annual meetings or exercise their voting rights.*

*IASB requires that an entity (investor) consolidate entities it controls (investee) when preparing consolidated financial statements. "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee" (IASB 2011, par 6). That is, control is presumed to exist if the potential investor will have *de facto* power and benefits to govern the financial and operating policies of an investee to obtain benefits. What*

---

<sup>3</sup> A pilot study was conducted using a group of accountants, all from the Southern region of the U.S. attending an accounting CPE session. The results from this study included a small sample offering almost no statistical validity. Moreover, the survey had not been vetted with practicing accountants inside or outside of the U.S. Pilot study results were published by Prather-Kinsey and Boyar (2013).

*percentage of control must Peach Company have of Sub Company to govern the financial and operating policies of Sub Company assuming all other investees **each** have less than five percent equity or governing power? Not that we believe that a percentage should be included in the IASB standard, but we want your interpretation of control.*

*In this context, control corresponds to a percentage greater than what?*

\_\_\_\_\_ %

*Given the IASB's definition of control, would you consolidate Sub Company in Peach Company's consolidated financial statements? Yes or No*

We also provided a “rules-based scenario” for the purpose of assessing whether personality or work location would affect respondents’ application of the term “control” differently under rules-based than principles-based standards. The FASB’s rules-based scenario and question follows.

*Peach Company owns 40% of the voting stock of Sub Company. The remaining voting stock of Peach Company is widely dispersed and these stockholders are not related parties of the company and typically do not participate in the annual meetings or exercise their voting rights.*

*The FASB in the U.S. states that an entity (investor) is required to consolidate entities it controls (investee) when preparing the parent company's (investor) consolidated financial statements. The FASB states that “investor control is presumed to exist if the parent owns more than 50% of the voting stock of another company.*

*Given the FASB's definition of control, would you consolidate Sub Company in Peach Company's consolidated financial statements? (check one)*

\_\_\_\_\_ Yes

\_\_\_\_\_ No

Accountants were required to indicate whether they would consolidate an investee with the parent company when the parent holds only 40% of the voting stock of the Sub Company: the investee. To test for consistency in interpretation of the term “control” as defined by rules versus principles, mean responses were compared.

### 3.3 Independent Variables

We included two independent variables, CSE and current work location. CSE explain individual differences in perceptions of self, others and the environment (Judge et al., 2003). Respondents rated CSE using the 12-item measure advanced by Judge et al. (2003). An example item is, “Overall, I am satisfied with myself.” Current work location was measured by determining the respondents’ current country location where he/she worked as an accountant. The two work locations, US and India, were coded as 0 and 1, respectively.

#### **4. Results**

Our study sought to investigate whether rules-based and principles-based standards are interpreted consistently across respondents and to investigate whether an accountant’s work location moderated by CSE influenced their judgment in decision-making. To examine this, we analyzed our results using 2 x 2 chi square contingency tests, logistic regression, and interaction plots.

##### *4.1 Demographics*

Table 1 shows the demographics of the respondents along with t-tests of differences in means. The sample is homogeneous between respondents in India and the US relative to age and training in IFRS. The US sample has a higher percentage of females, 57%, as opposed to India where females represented only 5% of the sample. US respondents have significantly higher CSE (mean = 3.63) than India respondents (mean = 3.17). These results provide preliminary evidence that accountants’ personalities are significantly different between the US and India, which may affect their accounting-related preferences or judgments.

-----  
 Insert Table 1 about here  
 -----

##### *4.2 Descriptive Statistics*



Correlations between the two independent variables, CSE and current work location, and the decision to consolidate under principles-based and rules-based standards are presented in Table 2. CSE are significantly correlated with work location and the decision to consolidate, especially under IFRS. Work location is not significantly correlated to the decision to consolidate under rules-based or principles-based accounting standards. Work location serves as a proxy for differences at the country level whereas CSE are at an individual level.

-----  
 Insert Table 2 about here  
 -----

The next step was to view US and India accountants' decisions about whether to consolidate the 40% owned subsidiary under IFRS (see Table 3) and US GAAP (see Table 4). We found that accountants operationalized "control" similarly whether using the judgement suggested under the IFRS Scenario (80%) or the  $\geq 50\%$  rule scenario (71%). However, the Indian-based accountants tended to consolidate the 40% owned investee more than the US sample whether applying US GAAP or IFRS. For example, as shown in Table 3, 86% (50) of Indian-based accountants chose to consolidate the 40% owned investee under IFRS compared to only 77% (94) of American-based accountants. Across both work locations the majority of accountants consolidated the 40% owned investee when applying IFRS (n=144 or 80%) and US GAAP (n=128 or 71%).

-----  
 Insert Tables 3 and 4 about here  
 -----

#### 4.3 Hypothesis Testing

In Hypotheses 1 and 2, we posited that work location (i.e., US and India) and personality (i.e., CSE) would be significant drivers of accounting decision-making under the principles-

based standards of IFRS, but not under the rules-based standards of US GAAP. As shown in column 2 of Table 5, the decision to consolidate under IFRS is significantly related to work location ( $\beta = -7.42, p < .05$ ) and CSE ( $\beta = -2.45, p < .05$ ). However, as shown in column 3 of Table 5, neither work location ( $\beta = 0.95, n.s.$ ) nor CSE ( $\beta = 0.06, n.s.$ ) were significantly related to consolidation decisions when rules-based US GAAP standards were applied. Taken together, these findings provide support for Hypotheses 1 and 2.

-----  
 Insert Tables 5 about here  
 -----

For hypothesis 3, we were interested in the extent to which accountants' decisions are driven by the combined effects of CSE *and* work location. To conduct this analysis, we created an interaction term composed of CSE and work location and regressed this term on the decision to consolidate. As shown in Table 5, the decisions to consolidate under IFRS was significantly related to this interaction term under IFRS ( $\beta = 2.10, p < .05$ ), but not under US GAAP ( $\beta = -.26, n.s.$ ).

Taken together, these findings provide support for the notion that accountants' decision-making under principles-based IFRS standards, but not rules-based standards, can be explained by main as well as interactive effects of accountants' work location and personality. As depicted in Figure 2, these results suggest that under IFRS, Indian accountants' decisions were more strongly swayed by their personality (i.e. CSE) than those of US based accountants. It appears that US based accountants may be better equipped to resist the tendency to allow their personal feelings to drive their decisions or that because of their rules-based training they are more familiar with and, therefore, more likely to apply the greater than 50% of voting shares rule in applying interpretation of the word "control" in consolidations.

## 5. Discussion and Conclusions

The objective of this study was to determine whether personality traits and work location affect accountants' interpretation of the IASB's principles-based terminology and decisions to consolidate an investee's operations, but not affect accountants' interpretation when applying rules-based standards with bright lines. Interestingly, our findings reveal that when applying judgment and using qualitative terms only to define "control," accountants' decisions may be affected by the country in which they work and their personality.

Our study offers several contributions to theory and practice. First, the results are significant and important as the IASB continues to converge with the FASB to develop a single set of high quality, globally-accepted accounting standards. Second, the findings provide some support for why global application of a rules-based set of accounting standards will more likely result in *de facto* comparable financial reporting across legal jurisdictions and personalities. The additional discretions allowed accountants in applying principles-based IFRS might diminish comparability of financial reporting across the world. Based on our results, we suggest that the FASB and IASB may want to reconsider the terminology used in IFRS if global comparability in financial reporting is desired. Clearly, there is a need to understand better the application of various IFRS terms across cultures, countries, and individuals. Our study provides preliminary evidence on the interpretation of rules-based vs principles-based standards.

## 6. Limitations and suggestions for future research

While the application of IFRS across accountants' work location and personalities is important, it is possible that our participants are biased by their perceptions of IFRS principles-based standards and US GAAP rules-based standards. Future research should capture the likely direction of respondents' perceptions about the standards to explain further the differences

between rules-based and principles-based standards. However, this study does provide preliminary insight on the kinds of concerns that may arise about the interpretation of alternatively expressed but similar terms.

Future studies can explore the influence of accountants' personality traits on decision-making among and across other cultures and nationalities. We recommend future research to explore differences in alternative terminologies in converged IASB and FASB accounting standards by examining personality variables across a large number of countries. Such findings should be useful to organizations and standard-setting bodies wanting to identify whether and why differences in interpretation and application of qualitative terms, such as "control" exist.

#### Acknowledgements

We appreciate funding from the University of Alabama at Birmingham Collat School of Business and comments from the AAA Diversity Section Mid-Year meeting in September 2014, participants at the Collat School of Business CPE session, Patrick Wheeler, and practicing German and US accountants.

## References

- Budescu, D. V., & Wallsten, T. S. (1985). Consistency in interpretation of probabilistic phrases. *Organizational Behavior and Human Decision Processes*, 36, 391–405.
- Chang, C., Ferris, D. L., Johnson, R. E., Rosen, C. C., & Tan, J. A. (2012). Core Self-evaluations: A review and evaluation of the literature. *Journal of Management*, 38, 81-128.
- Davidson, R. A. & Chrisman, H. H. (1993). Interlinguistic comparison of international accounting standards: The case of uncertainty expressions. *International Journal of Accounting*, 28, 1-16.
- De Luca, F. & Prather-Kinsey, J. (2014). Why Convergence between the FASB and IASB is idle, *AAA Annual Conference Working-paper*, Atlanta, Georgia (August).
- Deloitte Global IFRS Office. (2008). IASB revises IFRS 3 and IAS 27. *IAS Plus* Special edition January 2008 –Accessed 1/17/2017  
<https://www.iasplus.com/en/binary/iasplus/0801buscomb.pdf>
- Ding, Y., Jeanjean, T., & Stolowy, H. (2005). Why do national GAAP differ from IAS? The role of culture. *The International Journal of Accounting*, 40, 325-350.
- Doupnik, T. S., & Riccio, E. L. (2006). The influence of conservatism and secrecy on the interpretation of verbal probability expressions in the Anglo and Latin cultural areas. *International Journal of Accounting*, 41(3), 237-261.
- Doupnik, T. S., & Richter, M. (2003). Interpretation of uncertainty expressions: A cross-national study. *Accounting, Organizations and Society*, 28, 15-35.
- Doupnik, T. S., & Richter, M. (2004). The impact of culture on the interpretation of “in context” verbal probability expressions. *Journal of International Accounting Research*, 3 (1), 1-20.
- Doupnik, T. S., & Tsakumis, G. T. (2004). A critical review of the test of Gray’s Theory of cultural relevance and suggestions for future research. *Journal of Accounting Literature* 23, 1-30.
- Duong, H. K., Kang, H., & Salter, S. B. (2016). National culture and corporate governance. *Journal of International Accounting Research*, 15, (3), 67-96.
- Financial Accounting Standards Board (FASB). (2009). Accounting Standards Codification Subtopic 810-10, Consolidation: Overall (ARB 51, Statement 160, Interpretation 46(R)).

- FASB. (2014). Consolidation (Topic 810) Consolidation. Norwalk, CT: Financial Accounting Foundation.
- FASB and International Accounting Standards Board. (IASB). (2002). "The Norwalk Agreement." *Memorandum of Understanding*. Norwalk, CT: Financial Accounting Foundation.
- Heinz, P., Patel, C., & Hellmann, A. (2013). Some theoretical and methodological suggestions for studies examining accountants' professional judgments and earnings management. *Advances in Accounting, incorporating Advances in International Accounting*, 29, 299-311.
- Hofstede, G. (1980). Motivation, leadership, and organization: Do American theories apply abroad? *Organizational Dynamics*, 42-63.
- Hofstede, G. (2001). *Cultures consequences: Comparing values, behaviors, institutions, and organizations across nations* (2<sup>nd</sup> ed.). Thousand Oaks, CA Sage
- Hu, C., Chand, P., & Evans, E. (2013). The effect of national culture, acculturation, and education on accounting judgments: A comparative study of Australian and Chinese culture. *Journal of International Accounting Research*, Fall 12, 2, 51-77.
- Huerta, E., Petrides, Y., & Braun, G. P. (2016). Interpretation of probability expressions in accounting: The effects of frame switching. *Journal of International Accounting, Auditing and Taxation*, 27, 1-12.
- International Accounting Standards Board (IASB). (2008). *International Accounting Standard 27: Consolidated and Separate Financial Statements*. London, United Kingdom: International Financial Reporting Standards Foundation.
- IASB. (2011). IFRS 10 Consolidated Financial Statements. London, United Kingdom: International Financial Reporting Standards Foundation.
- IASB. (2012). IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities *Project Summary and Feedback Statement*. [http://www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/Consol-disclosure/IFRS-10-Consolidated-Financial-Statements/Documents/IFRS1012\\_ConsolidatedFinStatementsDisclosure\\_Updated\\_January2012.pdf](http://www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/Consol-disclosure/IFRS-10-Consolidated-Financial-Statements/Documents/IFRS1012_ConsolidatedFinStatementsDisclosure_Updated_January2012.pdf) Accessed 1/17/2017.
- International Financial Reporting Standards Foundation. (2016). IFRS Application Around the World Jurisdictional Profile: India. <http://www.ifrs.org/Use-around-the-world/Documents/Jurisdiction-profiles/India-IFRS-Profile.pdf> Accessed 3/9/2017.

- Judge, T. A., & Bono, J. E. (2001). Relationship of core self-evaluation traits—self-esteem, generalized self-efficacy, locus of control, and emotional stability—with job satisfaction and job performance: A meta-analysis. *Journal of Applied Psychology*, 86, (1), 80-92.
- Judge, T. A., Bono, J. E., Erez, A., & Locke, E. A. (2005). Core self-evaluations and job and life satisfaction: The role of self-concordance and goal attainment. *Journal of Applied Psychology*, 90, 257-268.
- Judge, T. A., Erez, A., Bono, J. E., & Thoresen, C.J. (2003). The core self-evaluations scale: Development of a measure. *Personnel Psychology*, 56, 303-331.
- Judge, T. A., Locke, E. A., & Durham, C. C. (1997). The dispositional causes of job satisfaction: A core evaluations approach. *Research in Organizational Behavior*, 19, 151-188.
- Lam, H. (2015). Why does the U.S. continue to use GAAP and will it ever converge to IFRS? Claremont McKenna College (CMC) Senior Theses. Paper 1066.  
[http://scholarship.claremont.edu/cgi/viewcontent.cgi?article=2018&context=cmc\\_theses](http://scholarship.claremont.edu/cgi/viewcontent.cgi?article=2018&context=cmc_theses)  
Accessed 2/16/2016.
- Nicolaisen, D. T. (2005). Statement by SEC Staff: a securities regulator looks at convergence, April. Available at <https://www.sec.gov/news/speech/spch040605dtn.htm> (accessed 8/1/2018).
- Phillips, L. D., & Wright, C. N. (1977). Cultural differences in viewing uncertainty and assessing probabilities. In H. Jungermann and G. de Zeeuw (Eds.). *Decision Making and Change in Human Affairs*. D. Dordrecht, Holland: Reidel Publishing Company.
- Prather-Kinsey, J., & Boyar, S. (2013). The effect of personality type on accountant's judgment: Implications for IFRS application. *Journal of Accounting, Ethics, and Public Policy* 14, (4), 881-897.
- Wallsten, T. S. Budescu, D.V., Rapoport, A., Zwick, R. & Forsyth, B. (1986). Measuring the vague meanings of probability terms. *Journal of Experimental Psychology: General*, 115, (4), 348-365.
- Wright, G. N., Phillips, L. D., Whalley, P. C., Choo, G. T., Ng, K., Tan, I., & Wisudha, A. (1978). Cultural Differences in Probabilistic Thinking. *Journal of Cross-Cultural Psychology*, 9(3), 285-299.

Table 1  
Demographics of Respondents  
Means, Standard Deviations (SD) and t-test of significant differences in means

	Total N =180	India N = 58	US N = 122	Test for differences in means		
	Mean (SD)	Mean (SD)	Mean (SD)	t-statistic	df	p
Age	2.34 (.83)	2.43 (.70)	2.30 (.89)	1.02	178	0.308
Gender	.41 (.49)	.05 (.22)	.57 (.50)	-9.73	178	0.000
CSE	3.49 (.65)	3.17 (.39)	3.63 (.69)	-5.83	178	0.000
Years with current company	8.22 (4.93)	9.03 (2.22)	7.84 (5.76)	2.01	178	0.046
Training in IFRS	1.38 (.49)	1.32 (.47)	1.40 (.49)	-0.96	178	0.335
Training in US GAAP	1.46 (.50)	1.62 (.49)	1.38 (.49)	3.13	178	0.002

N = sample size

Age Ranges: 1 = 19-25, 2 = 26-34, 3 = 35-54, 4 = 55-64, 5 = 65 or over

Gender: 0 = Male, 1 = Female

IFRS Training: 1 = Yes, 2 = No

GAAP Training: 1 = Yes, 2 = No

CSE = Core Self-Evaluations measure one's level of core self-evaluations using a five point

Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree)



Table 2

*Means (M), Standard Deviations (SD), and Correlations  
Independent (CSE and work location) and Dependent variables (decision)*

Variable	<i>M</i>	<i>SD</i>	1	2	3	4
1. CSE	3.49	0.65	-			
2. Work location	0.68	0.47	0.34***	-		
3. Consolidation Decision under IFRS—principles-based	0.80	0.40	-0.18**	-0.11	-	
4. Consolidation Decision under US GAAP---rules-based	0.71	0.46	-0.04	0.01	0.29***	-
5. Percentage Decision under IFRS	53.19	20.24	-.21**	-.06	.07	.10

*Note.* N = 180. CSE = Core Self-Evaluations. Work location: US and India. Significance: \* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$

Table 3  
IFRS Principles-based Scenario Decision to Consolidate Results

	Consolidate	Do Not Consolidate	Total
India Sample	50	8	58
US Sample	94	28	122
	144 (80%)	36 (20%)	180

Table 4  
US GAAP Rules-based Scenario Decision to Consolidate Results

	Consolidate	Do Not Consolidate	Total
India Sample	41	17	58
US Sample	87	35	122
	128 (71%)	52 (29%)	180

Table 5  
 Logistic Regression Results with  
 Accounting Decisions Regressed on CSE, Country and their Interaction

	<b>Consolidation decision under IFRS</b>		<b>Consolidation decision under US GAAP</b>
Variables			
Constant	9.94 (3.36)**		.70 (2.37)
CSE	-2.45 (.98)*		.06 (.74)
Country	-7.42 (3.57)*		.95 (2.60)
CSE x Country	2.10 (1.02)*		-.26 (.80)
Model $\chi^2$ (df)	10.49 (3)*		.50 (3)

Note:  $N = 180$ . Unstandardized regression coefficients shown. Standard errors shown in parentheses. Significance: \* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$

Figure 1

Figure 1 represents how accountants' work location (US and India) and personality (core self-evaluation) affect their decision-making about whether to consolidate or not when using US GAAP vs IFRS terminology in interpreting "control."

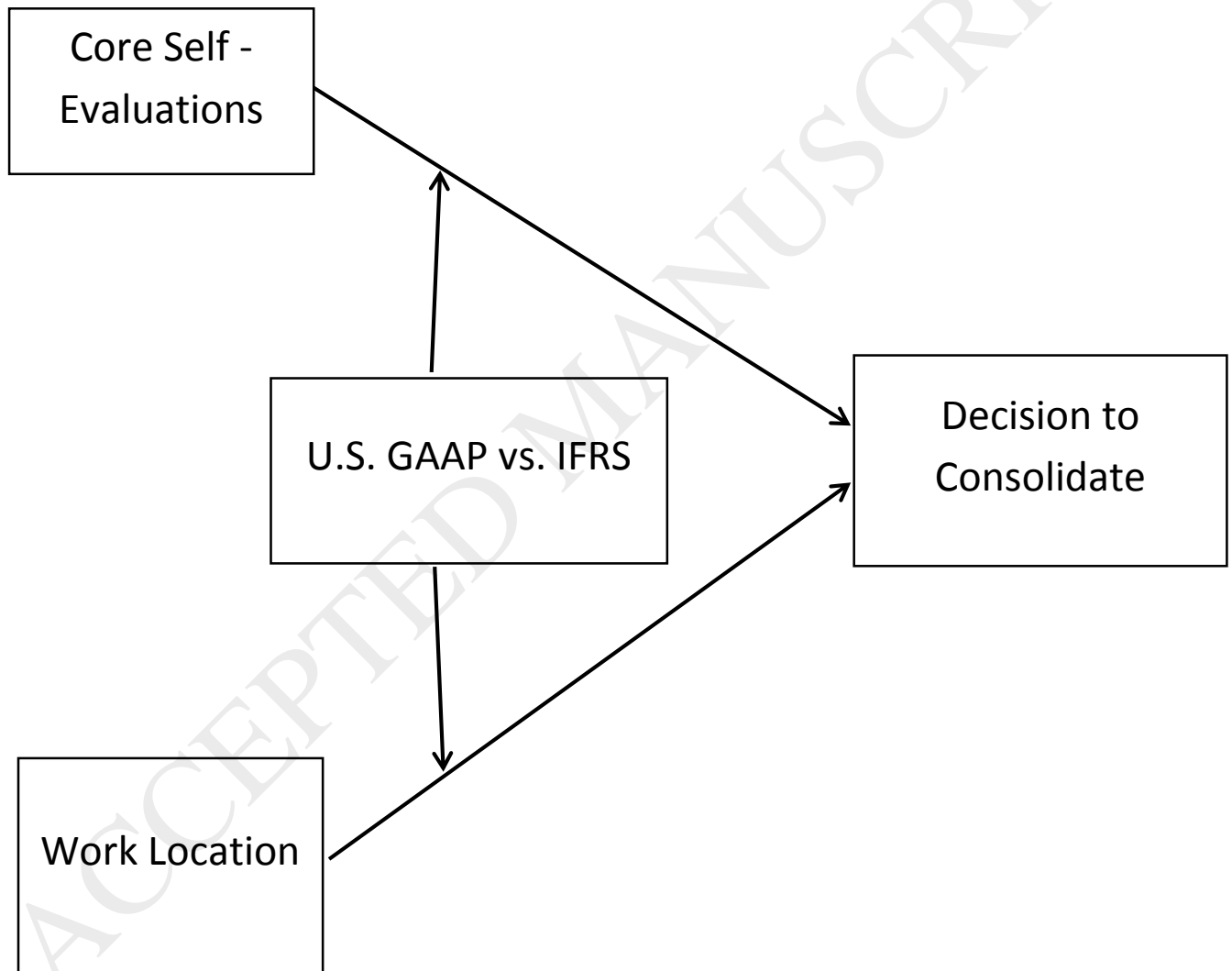


Figure 2  
Interaction plot illustrating effects of work location and CSE on the decision to consolidate when using IFRS terminology.

